

## **Overview of Industrial Goods Market Access for U.S. - Panama Trade Promotion Agreement**

The United States and Panama concluded Trade Promotion Agreement negotiations on December 19, 2006. This comprehensive Agreement will eliminate tariffs and other barriers to goods and services, promote economic growth, and enhance trade between the United States and Panama. Panama is a growing market for U.S. products. U.S. industrial goods exports in 2005 were \$2.2 billion, an increase of over 22 percent from 2004.

### **Agreement Overview**

#### **Industrial Goods Market Access**

Tariffs on over 88 percent of U.S. exports of consumer and industrial products to Panama will become duty-free upon entry into force of the Agreement. All remaining tariffs on consumer and industrial products will be eliminated within ten years. Key U.S. exports; including agricultural and construction equipment, aircraft parts, information technology equipment, and medical and scientific equipment will gain immediate duty-free access to Panama.

Under the Caribbean Basin Initiative, many products from Panama already enter the United States duty-free. The Agreement will make duty-free treatment permanent, providing certainty for businesses and investors, and will allow nearly all non-textile consumer and industrial products made in Panama to enter the U.S. duty free immediately upon implementation of the Agreement.

Tariffs will be phased-out according to four tariff elimination categories: immediate elimination; linear cuts over five years; linear cuts over ten years; and nonlinear cuts over ten years. Tariff elimination under the nonlinear ten-year staging category will proceed with a 3 percent cut in the tariff in years one and two, a 5 percent cut in years three through six, an 18 percent cut in years seven and eight, and a 19 percent cut each in years nine and ten.

#### **Non-Tariff Barriers**

Panama will eliminate its prohibition on the importation of remanufactured products, as defined in Chapter 4 of the Agreement.

#### **Government Procurement**

The government procurement provisions of the U.S.- Panama TPA guarantee non-discriminatory access for U.S. goods, services, and suppliers of a broad range of public purchasing entities in Panama, including the Panama Canal Authority. The \$5.25 billion expansion of the Panama Canal will offer significant opportunities for U.S. businesses in goods, services, and construction services.

## **State Export Profile**

Panama is an important and diversified export market for many U.S. states. Lower tariffs on U.S. goods will raise the profit potential for local businesses.

### **California**

California's top exports to Panama are information technology equipment, scientific equipment, footwear, fuel, leather products, aircraft parts and aluminum. California's business will benefit from the Agreement as tariffs on information technology equipment, scientific equipment and aircraft parts become duty-free upon implementation of the Agreement.

### **Florida**

Florida's top exports to Panama are cosmetics, information technology equipment, scientific equipment, aircraft parts and motor vehicles. Under the Agreement, Panama agreed to immediately eliminate its tariffs on information technology and scientific equipment. In addition, Panama will immediately eliminate tariffs on almost 80 percent of U.S. exports in chemicals; this including tariff elimination on 76 percent of U.S. exports in cosmetics.

### **Georgia**

Georgia's top exports to Panama are chemicals, kraft paper, plastics, sanitary household paper products, and infrastructure machinery. Panama agreed to immediately eliminate tariffs on almost 80 percent of U.S. exports in the overall chemicals sector; this includes a elimination on 100 percent of U.S. exports in plastics. Additionally, Panama agreed to immediately eliminate its tariffs on 82 percent of U.S. exports in paper; this includes priority products such as kraft paper and sanitary household paper products.

### **New Jersey**

New Jersey's top exports to Panama are pharmaceuticals, fuel, cosmetics, information technology equipment and leather products. Panama agreed to immediately eliminate tariffs on almost 80 percent of U.S. exports in chemicals; this including tariff elimination on 76 percent of U.S. exports in cosmetics and a tariff elimination on 100 percent of U.S. exports in pharmaceuticals. Panama agreed to immediately eliminate its tariffs on information technology and scientific equipment.

### **Ohio**

Ohio's top exports to Panama are jet engines, motor vehicles, washing machines, paper and cosmetics. Panama agreed to immediately eliminate tariffs on almost 80 percent of

U.S. exports in chemicals; this including tariff elimination on 76 percent of U.S. exports in cosmetics. Panama agreed to immediately eliminate its tariffs on almost 100 percent of U.S. exports in aircraft equipment. Panama agreed to immediately eliminate its tariffs on 82 percent of U.S. exports in paper; this includes priority products such as kraft paper and household paper products.

### **Texas**

Texas' top exports to Panama are paper, scientific equipment, plastics and resins, fuel and information technology equipment. Panama agreed to immediately eliminate tariffs on almost 80 percent of U.S. exports in the overall chemicals sector; this includes tariff elimination on 100 percent of U.S. exports in plastics and resins. Panama agreed to immediately eliminate its tariffs on information technology and scientific equipment including optical fiber.

### **Washington**

Washington's top exports to Panama are wood, fuel, information technology equipment and aircraft. Panama agreed to immediately eliminate tariffs on 78 percent of U.S. exports in wood. Panama agreed to immediately eliminate tariffs on 96 percent of U.S. exports in minerals and fuel. Panama agreed to immediately eliminate tariffs on almost 100 percent of aircraft equipment.

### **Role of SMEs in Exports to Panama**

The U.S.- Panama TPA will be especially beneficial to U.S. small and medium-sized businesses (SMEs), which are enterprises with fewer than 500 employees. In 2004, U.S. SMEs exported \$666 million in merchandise to Panama, representing 42 percent of total U.S. exports to Panama – well above the 29 percent SME share of U.S. exports to the world. Eighty percent of U.S. businesses exporting to Panama in 2004 were small and medium-sized businesses.

SMEs benefit from the tariff eliminating provisions of free trade Agreements, and will benefit from the significant tariff cuts under the U.S.-Panama TPA. The transparency obligations, particularly those contained in the customs chapter, are also very important to SMEs, which may not have the resources to navigate customs and regulatory red tape.

## **Sector Snapshot**

### **Agriculture Equipment**

Agricultural equipment exports to Panama in 2006 totaled \$4.5 million. The top U.S. exports in this sector included agricultural machinery parts, tractors, harvesters, and mowers. Panamanian tariffs range between zero and 10 percent, with an average of 1.6 percent in 2006. All U.S. exports of agricultural equipment will receive duty-free treatment immediately upon implementation of the Agreement. Panama exported a negligible amount of agricultural equipment to the United States in 2006. All Panamanian exports in this sector enter the United States duty-free under the Caribbean Basin Economic Recovery Act (CBERA) and Caribbean Basin Trade Promotion Act (CBTPA) tariff preference programs.

### **Civil Aircraft Equipment**

Aircraft and related equipment accounted for 8.5 percent of U.S. industrial exports to Panama in 2006, totaling \$186 million. The top U.S. exports to Panama in this sector were aircraft and parts, turbojets, helicopters, and turbo propellers. Panamanian tariffs range between zero and 15 percent with an average of 10.6 percent in 2006. One hundred percent of U.S. aircraft and related equipment exports, including high value products such as aircraft, helicopters, radio equipment, and other aircraft parts will receive duty-free treatment immediately upon implementation of the Agreement. Panamanian exports to the United States in this sector totaled \$128 thousand in 2006, which is less than 1 percent of industrial exports to the United States. Top Panamanian exports in this sector were gas turbine parts and instruments for navigation and radar. The United States is a signatory of the WTO Agreement on Civil Aircraft and applies zero duty on all aircraft products on a MFN basis.

### **Autos and Auto Parts**

Automotive products accounted for 3 percent of U.S. industrial exports to Panama in 2006, totaling \$65 million. The top U.S. exports to Panama in this sector were road tractors, trucks, and passenger motor vehicles. Panamanian tariffs range between zero and 20 percent with an average tariff of 10.5 percent in 2006. For motor vehicles, 55 percent of U.S. exports in this sector will receive duty-free treatment immediately upon implementation of the Agreement including road tractors, trucks under five metric tons, SUVs, and shock absorbers. Tariffs on another 15.6 percent of exports will be eliminated over five years. Duties on the remaining 29 percent of U.S. exports will be eliminated over ten years, including used vehicles, large trucks, and buses.

For auto parts, 97 percent of U.S. industrial exports will receive duty-free treatment immediately upon implementation of the Agreement with the remaining 3 percent eliminated over ten years. Panamanian exports to the United States totaled \$283,000 in 2006. Top Panamanian exports to the U.S. were engines, radio broadcast receivers, and safety glass. U.S. automotive tariffs range from zero to 25 percent, with an average of

2.4 percent. All Panamanian exports in this sector enter the United States duty-free under the Caribbean Basin Economic Recovery Act (CBERA) and Caribbean Basin Trade Promotion Act (CBTPA) tariff preference programs.

## **Chemicals**

Chemicals accounted for 16.3 percent of U.S. industrial exports to Panama in 2006, totaling \$356 million. The top U.S. exports to Panama in this sector were antibiotics, non-vaccine medicaments, perfumes, and adhesive dressings. Panamanian tariffs range between zero and 15 percent with an average of 3.5 percent in 2006. For overall chemical products, 80 percent of U.S. exports will receive duty-free treatment immediately upon implementation of the Agreement. Tariffs on another 11 percent of exports will be eliminated over five years, and duties on the remaining 9 percent of U.S. exports will be eliminated over ten years.

Panamanian exports to the United States in this sector totaled nearly \$8.9 million in 2006, or 5.3 percent of industrial exports to the United States. Perfumes, pharmaceuticals, photographic film rolls, and waste plastics led Panama's chemicals exports. The United States is a signatory of the Uruguay Round Chemical Harmonization and Pharmaceuticals Agreements. All Panamanian exports in this sector enter the United States duty-free under the Caribbean Basin Economic Recovery Act (CBERA) and Caribbean Basin Trade Promotion Act (CBTPA) tariff preference programs.

## **Construction Equipment**

Construction equipment accounted for 1.8 percent of U.S. industrial exports to Panama in 2006, totaling over \$39 million. The top U.S. exports in this sector included freight elevators, dump trucks, mechanical shovel loaders, and mobile lifting frames on tires. Panamanian tariffs range between zero and 10 percent, with an average of 6.5 percent in 2006. For construction equipment, 100 percent of U.S. exports in this sector will receive duty-free treatment immediately upon implementation of the Agreement, including high-value construction equipment such as freight elevators, dump trucks, and shovel loaders. Panamanian exports to the United States in this sector totaled \$537,000 in 2006. Top Panamanian exports to the United States included mechanical shovel loaders, public works machinery, and parts. The United States is a signatory of the Uruguay Round sector Agreement and as a result imposes zero duties on these products on an MFN basis.

## **Footwear and Leather Products**

Footwear and leather exports to Panama in 2006 totaled \$6.1 million. The top U.S. exports in this sector were miscellaneous footwear and parts, metal-toed footwear, and handbags. Panamanian tariffs range between zero and 15 percent with an average of 11.3 percent in 2006. For footwear and leather products, 92.8 percent of U.S. industrial exports will receive duty-free treatment immediately upon implementation of the Agreement. Duties on the remaining 7.2 percent of U.S. exports will be eliminated over ten years. Panamanian exports to the United States in this sector totaled \$292,000 in

2006. Top Panamanian exports to the United States were sports footwear, handbags, and leather container bags. The United States' tariffs range between zero and 51 percent. The United States agreed to provide immediate duty-free treatment to most products in this sector. Certain rubber footwear items are excluded from duty-free preferences under the CBERA and CBTPA. For these 16 tariff lines, U.S. duties will be phased out over ten years.

### **Medical Equipment**

Medical equipment accounted for 1 percent of U.S industrial exports to Panama in 2006, totaling nearly \$21 million. The top U.S. exports in this sector included x-ray machines, tomography and electro-diagnostic apparatuses, medical sterilizers, and MRI machines. Panamanian tariffs range between zero and 15 percent, with an average of 8.6 percent in 2006. For medical equipment, 97 percent of U.S. industrial exports will receive duty-free treatment immediately upon implementation of the Agreement. Duties on the remaining 3 percent of U.S. industrial imports, including orthopedic and fracture appliances and medical furniture will be eliminated over ten years. Panamanian exports to the United States in this sector totaled \$324 thousand in 2006, or less than 1 percent of Panama's industrial exports to the United States. Top Panamanian medical equipment exports to the United States include instruments, electrical machines and miscellaneous parts. The United States is a signatory of the Uruguay Round sector Agreement and as a result imposes zero duties on these products.

### **Scientific Equipment**

Scientific equipment exports to Panama in 2006 totaled \$2.4 million. The top U.S. exports in this sector included telecommunications instruments, testing and measuring equipment, and parts thereof. Panamanian tariffs range between 3 and 15 percent, with an average of 8 percent in 2006. For scientific equipment, 100 percent of U.S. industrial exports will receive duty-free treatment immediately upon implementation of the Agreement. Panamanian exports to the United States in this sector were negligible in 2006, totaling \$12 thousand, or less than 1 percent of Panama's industrial exports to the United States. The sole Panamanian exports to the United States in this sector were instruments designed for telecommunications. The U.S. tariffs range between zero and 4 percent with an average of 2 percent. All Panamanian exports in this sector enter the United States duty-free under the Caribbean Basin Economic Recovery Act (CBERA) and Caribbean Basin Trade Promotion Act (CBTPA) tariff preference programs.

## Key Tariff Reductions by Sector

Sector	Immediate staging	5 year staging	10 year staging	10 year nonlinear staging
Accessories	84.06%	4.88%	11.06%	0.00%
Agriculture Equipment	100.00%	0.00%	0.00%	0.00%
Arms and Ammunition	42.51%	0.00%	57.49%	0.00%
Auto Parts	96.96%	0.00%	3.04%	0.00%
Building Products	69.80%	17.11%	8.25%	4.84%
Civil Aircraft Equipment	99.26%	0.00%	0.74%	0.00%
Construction Equipment	100.00%	0.00%	0.00%	0.00%
Consumer Goods	85.26%	6.57%	7.48%	0.68%
Chemicals <sup>1</sup>	79.95%	11.00%	0.43%	8.63%
Cosmetics	76.78%	11.81%	5.36%	6.05%
Fertilizer	100.00%	0.00%	0.00%	0.00%
Pharmaceuticals	100.00%	0.00%	0.00%	0.00%
Plastic	83.17%	4.97%	11.86%	0.00%
Rubber	40.40%	41.24%	18.36%	0.00%
Fish	82.06%	0.03%	0.00%	17.91%
Furniture	19.58%	3.61%	76.81%	0.00%
Footwear	57.39%	0.00%	0.00%	42.61%
Forest Products <sup>2</sup>	82.75%	15.41%	1.84%	0.00%
Infrastructure Machinery	97.52%	0.61%	1.83%	0.04%
Information Technology Products <sup>3</sup>	94.50%	4.65%	0.85%	0.00%
Information Technology Agreement <sup>4</sup>	100.00%	0.00%	0.00%	0.00%
Medical Equipment <sup>5</sup>	97.08%	0.00%	2.92%	0.00%
Metals	87.84%	6.81%	4.70%	0.65%
Minerals and Fuel	96.00%	3.98%	0.00%	0.01%
Medical and Scientific Equipment <sup>6</sup>	97.59%	0.58%	1.83%	0.00%
Motor Vehicles	55.24%	15.64%	17.24%	11.88%
Paper	82.10%	3.12%	5.34%	9.44%
Scientific Equipment	100.00%	0.00%	0.00%	0.00%
Transportation Machinery	92.88%	3.67%	3.45%	0.00%
Travel Goods <sup>7</sup>	100.00%	0.00%	0.00%	0.00%
Wood	78.82%	9.52%	11.65%	0.00%

<sup>1</sup> These numbers are based on the overall chemicals sector.

<sup>2</sup> Includes all products not covered under the WTO Wood or Paper sector Agreements.

<sup>3</sup> Information technology equipment not covered under the WTO Information Technology Agreement

<sup>4</sup> Products covered under the Information Technology Agreement.

<sup>5</sup> Includes orthopedic and fracture appliances and medical furniture.

<sup>6</sup> Includes the medical and scientific equipment not included in the WTO Agreements on medical and scientific equipment.

<sup>7</sup> This sector only includes non-textile travel goods.